Department for Business Innovation & Skills

# THE FUTURE OF NARRATIVE REPORTING

## Consulting on a new reporting framework

SEPTEMBER 2011

# Contents

## The Future of Narrative Reporting

The consultation paper describes a new reporting framework for UK companies. It will comprise a Strategic Report containing key messages about the company, including the company's strategy, results, risks and remuneration supported by detailed information in an Annual Directors' Statement. The consultation asks for views on the new framework, the proposed changes to disclosure requirements and the cross-cutting issues of audit, assurance, guidance and enforcement.

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This consultation is relevant to UK companies, their directors, shareholders, company secretaries, regulators, standard setters and advisors. We also welcome views from all individuals and organisations with an interest in company reporting.

## Foreword from Edward Davey

I have spoken to many interested parties in recent months from a broad range of backgrounds and they have given me a consistent message - the current narrative reporting framework works, to a point, but it could and should be so much better.

In the Growth Review in March, we gave commitment to simplify the narrative reporting framework, building on the coalition commitment to increase the quality of companies' social and environmental reporting.

As a government, we are committed to improving transparency and the quality of information provided to investors, consumers and other stakeholders by both Government and businesses, for example through the current MyData and Open Data initiatives.

Our aims for this consultation are clear. We have identified what's required to get the standard of narrative reporting up to the level of the very best, whilst still reducing the overall burden on business. We will empower shareholders with the information – including on social and environmental matters - that they need to be active and committed company owners, and will remove requirements for companies to report information which shareholders have said is unnecessary.

When we consulted on this topic last year, many people told us that annual reports have become too long and complex. So we are proposing a new structure that will help shareholders, investors and other stakeholders find relevant information quickly and easily. Most of our proposals will result in significant changes only for our largest companies, as smaller businesses are already exempt from many of the regulations in this area.

We will remove duplication and inconsistency wherever we are able, reducing costs for business. In turn, better guidance and increased transparency will exert continual pressure to drive further improvements in the quality of reporting.

In a nutshell, we will help companies to provide clear and relevant information to investors. The results of this will be increased transparency and accountability in the investment chain and shareholders equipped with the information they need to make well-informed decisions.

This consultation represents a significant step along the path to better corporate information. I look forward to receiving your comments.

# 1 Executive Summary

1.1 This consultation paper proposes a new, simpler framework for narrative reporting that will reduce burdens on companies that are currently producing large, complex reports that lie unread by investors. We will remove outdated disclosure requirements that are of no use to investors or other stakeholders, and we will give companies the clarity that they need to produce clear, useful reports for investors.

1.2 We propose removing disclosure requirements from company law where we believe that the case for disclosure has diminished and ask – for example on pay – how best to rationalise existing conflicting requirements.

1.3 To provide a clearer structure for companies and investors, we are proposing to replace the current Business Review and Director's Report with a Strategic Report and an Annual Directors' Statement.

1.4 The Strategic Report will be where the board sets out and signs off the strategy, direction and challenges facing the company, evidenced by high-level financial and remuneration information. This report will provide a clear line of sight from the strategy, business model and risks of the company to the financial results and the resulting rewards for the company's directors.

1.5 This will be supported by detailed information in an Annual Directors' Statement presented in a consistent and coherent format aimed at online publication. This will be much clearer for users to follow and will provide a platform from which future developments (for example, tagging narrative information to make it more searchable) can be implemented. A prescribed structure with a set layout and standard headings will increase comparability for users and provide a helpful check-list of required disclosures for companies.

1.6 Companies will also be able to include voluntary disclosures (for example on social and environmental issues) in the Annual Directors' Statement, increasing the visibility of this information and making the Annual Directors Statement the key source of detailed information on specific aspects of company performance.

1.7 The most significant changes that we propose apply to the largest UK companies with large numbers of shareholders ("quoted companies" as defined by the Companies Act 2006). The Government is proposing a framework with minimal burden on smaller companies and strong and lasting benefits for larger companies and their investors. We expect that the regulatory burden of the framework proposals for non-quoted companies will be as little as changing two headings in their existing reports. In particular, small companies are currently exempt from the requirement to produce a Business Review, and we are proposing that this exemption should in future apply to the Strategic Report.

1.8 The Government will work with companies, investors, regulators and wider stakeholders over the coming months to develop the appropriate format and supporting guidance to ensure a robust and future-proof framework is in place before implementation.

1.9 While there are real benefits from shifting to a new more streamlined and coherent framework, we do not want to discard what is good about the existing reporting system or change substantial, familiar disclosure requirements where this is not necessary.

1.10 However, company law is only one source of reporting requirements for companies, with many obligations arising from other sources, for example the Listing Rules and European requirements. We will therefore work closely with the Financial Services Authority and European partners to ensure that the legal framework in this area is as consistent, effective and user-friendly as possible.

1.11 The Government is also seeking views on the linked issues of guidance, assurance and enforcement. We have not heard compelling evidence to change the law either with regard to the level of independent assurance on narrative information (opinion on consistency with the financial statements by the auditor), or the role of the Financial Reporting Review Panel with regards to their enforcement remit.

1.12 The Government is proposing to request the Accounting Standards Board (ASB) to revise and update its existing reporting statement and guidance to take account of the new reporting structure. The Government is not proposing to introduce a statutory standard. The revised ASB reporting statement, including supporting guidance that is specifically tailored to the new framework, will provide companies with the clarity that they need to produce high quality reports while preserving flexibility valued by companies and investors.

1.13 The proposals in this consultation document meet the coalition commitment to improve the quality of companies' social and environmental reporting, while minimising disruption from new rules to companies and users of company information. The Government has recently consulted on changes to the reporting of greenhouse gas emissions, and we will integrate any resulting changes to disclosure requirements into the new framework. The Government has also committed to provide business with new guidance that will help them measure and report their corporate environmental impacts. This will provide investors with better quality environmental reporting, allowing them to take these factors fully into account when making investment decisions.

1.14 In producing these proposals, the Government has worked with the Financial Reporting Council, in particular on its work on 'Cutting Clutter' and its proposals for a financial reporting laboratory.

1.15 Following this consultation, the Government will publish draft regulatory and non-regulatory solutions with a view to any regulatory solutions becoming effective for years beginning 1 October 2012. Early adoption will be facilitated where possible.

1.16 The UK Government is responsible for company law in England, Wales and in Scotland. The Northern Ireland administration has agreed that, while company law remains a transferred matter within the legislative competence of the Northern Ireland Assembly, the Companies Act 2006 should apply to the whole of the United Kingdom. Consequently any changes to company law resulting from this consultation will also apply UK-wide.

## How to respond

When responding please state whether you are an individual or representing the views of an organisation. If you are responding on behalf of an organisation, please make it clear who the organisation represents by selecting the appropriate interest group on the consultation response form and, where applicable, how the how the views of members were assembled.

A copy of the Consultation Response form is available electronically at www.bis.gov.uk/consultations. If you decide to respond this way, the form can be submitted by letter, fax or email to:

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We would welcome suggestions of others who may wish to be involved in this consultation process.

For hard copies of your consultation document you may facilitate responses by using a detachable Consultation Response Form (Annex D). Additionally there is an electronic version of the response form available at www.bis.gov.uk/consultations

## Additional copies

You may make copies of this document without seeking permission. Further printed copies of the consultation document can be obtained from:

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Information provided in response to this consultation, including personal information, may be subject to publication or release to other parties or to disclosure in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004). If you want information, including personal data that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence.

In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

## Help with queries

Questions about the policy issues raised in the document can be addressed to:

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A copy of the Code of Practice on Consultation can be found at Annex D.

# 2 Introduction

## Purpose of this consultation

2.1 This consultation seeks views on proposed changes to the narrative reporting framework for UK companies to increase the quality of their narrative reporting. Narrative reporting provides an important link between companies and their investors and wider stakeholders. It is a key element in the framework that allows investors to hold companies to account, both in terms of achieving sustainable long term returns and on the impact of the business to society and the environment.

2.2 The Coalition Agreement reflected the importance of the narrative reporting framework by including a commitment to "*reinstate an Operating and Financial Review to ensure that directors' social and environmental duties have to be covered in company reporting, and investigate further ways of improving corporate accountability and transparency*."

2.3 The proposals in this consultation document substantially meet this commitment while minimising disruption from new rules to companies and users of company information. We believe that the proposals combined with the proposed simplifications to disclosure requirements will amount to a net reduction in administrative burden for companies and an improved framework for shareholders and other users of company information.

## Previous consultations

2.4 The response to recent BIS consultations "The Future of Narrative Reporting"[1] and " A Long-term Focus for Corporate Britain" [2] demonstrate a clear consensus that change to the current narrative reporting framework for companies is both desirable and needed. Preparers and users want it to be easier to draw out strategic company information from the increasing volume of published company data and for a more coherent framework for that data, whether required or offered voluntarily. In essence company reports need to become relevant to their key audiences once more.

2.5 The Government's objectives at the outset of the review of narrative reporting were to:

- drive up the quality of narrative reporting to the standard of the best, including on social and environmental issues,
- empower shareholders, and;
- achieve coherence without increasing the regulatory burden on business.

2.6 In recent months the Department for Business has hosted a number of discussions with interested parties to develop proposals for change. Having undertaken rigorous impact assessment the Government is now consulting on these proposals.

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1 http://www.bis.gov.uk/Consultations/the-future-of-narrative-reporting-a-consultation
2 http://www.bis.gov.uk/Consultations/a-long-term-focus-for-corporate-britain

2.7 The key themes that emerged from the many responses that we received to the two consultations were:

- Effective disclosure of company risks, strategies and opportunities is important for investors to make long-term decisions.
- Narrative reports have a wide range of audiences including investors, regulators and other stakeholders. This can lead to un-focused, inaccessible reports where it can be difficult to see the wood for the trees.
- Reporting of social and environmental matters was seen by many to be poorly integrated with the strategy and risks of the business. There were also concerns from users that reports are failing to give a balanced view of the business, particularly in these areas.
- Reporting of directors' remuneration is viewed by many users to be over-long, over-complicated and unclear. In particular, most respondents favoured greater clarity on the link between remuneration and company performance.

2.8 We are addressing these points by proposing changes to both the form and content of company annual reports. Our proposals mean that for all companies[3] the Directors' Report and the Business Review will be replaced by a Strategic Report and an Annual Directors' Statement.

## Proposals

2.9 **The Strategic Report** will be prepared for shareholders and will provide them with a concise description of the company's strategy, risks and business model. It will integrate wider matters of significance to the company, including key environmental and social information with key financial information and a forward-looking analysis by the directors of the challenges and opportunities that they face. It will incorporate the content from the Business Review that is required by the Companies Act 2006 ("the Companies Act"), supplemented by high level information from the financial statements and other sources. The Strategic Report will be prepared for shareholders, but it will also be relevant to all users of annual reports and accounts.

2.10 This report will provide investors with concise, high quality disclosure of the company's business model, strategy and risks, and, for quoted companies, the links between company performance and the remuneration of company directors and senior executives.

2.11 The Strategic Report is also the place for quoted companies to describe (to the extent necessary for an understanding of the business) how social, environmental and human rights considerations relate to their business model and strategy. This will ensure that social and environmental information is considered alongside the analysis of the company's strategy and risks – the result being an integrated report demonstrating, where relevant, the links between these issues.

2.12 The Strategic Report will be more concise than the existing narrative report, and will cross-refer to the detailed information in the Annual Directors' Statement, thereby facilitating access to more detailed information on a particular topic for those requiring

[3] other than small companies, which are exempt from producing a Business Review

it. The level of prescription of detailed content and format will be kept to the minimum required to allow companies the flexibility to "tell their story".

2.13 In contrast to the Strategic Report, **the Annual Directors' Statement** will be the repository for reporting requirements which are required disclosures irrespective of materiality or impact on the business as a whole.

2.14 The format and headings of the information in the Annual Directors' Statement will be more closely prescribed than is currently the case, allowing greater comparability of information between companies and across time. Companies will also be able to include voluntary disclosures (for example on social and environmental issues) in the same framework, increasing visibility of this information to investors and making the Annual Directors' Statement a useful and efficient source of detailed information on specific aspects of company performance.

2.15 The structure of the Annual Directors' Statement will be optimised for online disclosure; however the right to request the information in hard copy form from the company will remain.

## Executive remuneration

2.16 Responses to previous BIS consultations[4] confirmed that the current disclosure framework for executive remuneration is providing too much detailed information at the expense of clarity on the issues that are most important to shareholders. We are therefore proposing to make changes to the current reporting requirements so that quoted companies should be required to disclose:

- the total remuneration paid to each director in the financial year; and
- fuller information on the relationship between pay and company performance, including estimates of total remuneration on the basis of different levels of performance and an explanation of how the performance criteria relate to the company's strategic objectives.

2.17 We also ask whether or not it would be valuable for shareholders to have additional information about how executive pay relates to pay in the rest of the workforce and to spend across the organisation.

2.18 Key elements of the remuneration report should form part of the Strategic Report, particularly in relation to the linkage of executive remuneration to the company's strategic objectives and performance. The full remuneration report will form part of the Annual Directors' Statement.

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[4] "The Future of Narrative Reporting " available at http://www.bis.gov.uk/Consultations/the-future-of-narrative-reporting-a-consultation and "A Long-term Focus for Corporate Britain", available at: http://www.bis.gov.uk/Consultations/a-long-term-focus-for-corporate-britain

2.19 There will continue to be a requirement for an annual advisory vote by shareholders on the full remuneration report.

### Responsible business and open data

The review of the narrative reporting framework for companies is an important part of the Government's wider corporate social responsibility agenda, which encourages business to minimise the social and environmental costs associated with their activities, and to maximise the positive impact they can make – benefiting commercially in the process.

In support of this, the Government has recently launched the "Every Business Commits" framework to encourage all UK businesses to think more about how they can act responsibly to support the communities and environments in which they operate. Every Business Commits sets out clear examples of activities to businesses of all sizes where they can make a difference in five priority areas: supporting communities, improving quality of life, improving skills and creating jobs, protecting the environment and supporting SMEs.

We would encourage businesses of all sizes to think about how they might report more systematically against these priority areas, recognising that they will not all be relevant to all types of business. This would enable a shift in the quality of information available to investors, consumers and employees, signalling a key move to integrating corporate responsibility further into the business goals of all companies.

The proposals in this document are aimed at increasing the transparency and usefulness of information provided by companies. The Government's wider strategy in this area, including the current Open Data and MyData initiatives, will encourage sustainable economic growth by facilitating a 'race to the top' by companies in terms of value and service, in a way that stimulates an information sharing economy.

As part of its aim to make company information more accessible and line with the Government's transparency agenda Companies House will launch Universal Resource Identifiers (URIs) in the autumn that will provide easy access and linking to information on UK companies.

# 3 The format of company narrative reports

## Introduction

3.1 The narrative section of the annual report is a critical vehicle for communicating non-financial information to shareholders. Recent developments in company reporting have favoured increasingly lengthy and complex reports, reducing their utility to shareholders, potential investors and other interested parties.

3.2 There is general support from shareholders to simplify the framework, to reduce the incentives to make “boilerplate” disclosures and to increase the comparability of data provided by companies as part of the reporting process. Conversely, some investors and others rely on specific information in the report, that may not be relevant to most readers.

3.3 The challenge is to reconcile these competing requirements – on the one hand the need for a clear, concise overview of the business and the directors’ views of the challenges and opportunities it faces, and on the other hand for detailed, comparable information for analysts and others to use.

3.4 The Government is proposing to address this by putting in place a new framework for narrative reporting. This will include a Strategic Report that will provide an overview of the company supported by key financial and other information, and an Annual Directors’ Statement that will provide a framework for detailed narrative disclosures by the company in a more structured, comparable way than is currently the case.

3.5 The Annual Directors’ Statement will provide a consistent framework into which companies can integrate both required and voluntary disclosures to allow users of such detailed information to gain an integrated view of the company as a whole.

3.6 Small companies are currently exempt from the requirement to produce a Business Review, and we are proposing that this exemption should in future apply to the Strategic Report. The current requirements for small businesses will therefore remain largely unchanged, except that the Directors’ Report will be renamed to the Annual Directors’ Statement. Further information on the scope of these proposals can be found in paragraphs 3.12 to 3.15.

3.7 The detailed information required in the Annual Directors’ Statement is best suited to presentation online, where it can readily be searched and used in conjunction with other information on the company. The ability to link and cross reference the material in the Annual Directors’ Statement to the Strategic Report and the financial statements will also enable the reader to readily drill down into the detail, should they wish to do so.

3.8 The Government is not proposing to change the law with respect to a shareholder’s right to require the company to provide “hard copies” of company reports. The Strategic Report and Annual Directors’ Statement will be in the scope of this requirement. However we anticipate that increasingly the Annual Directors’ Statement will be primarily designed for digital access, while retaining the right of shareholders to access the printed versions.

3.9 The existing filing arrangements for annual reports with Companies House will remain unchanged, and we are not proposing to make any changes to the regulatory requirements for company financial statements.

3.10 The new framework is set out in Figure 1, which shows how the current company law requirements for the narrative elements of annual reports of quoted companies would be replaced by the Strategic Report and the Annual Directors' Statement.

3.11 The Government and UK regulators are actively involved in discussion with their international counterparts on the future developments in the area of narrative reporting. The Government's aim is that the proposed new framework will be adaptable enough to accommodate future requirements in corporate reporting (such as iXBRL[5]), that may arise from these discussions.

## Scope

3.12 The proposals to abolish the current Directors Report and replace it with a new framework will affect all companies. However, the changes required for non-quoted companies will be minimal.

3.13 In terms of the current reporting requirements under the Companies Act 2006 (the Companies Act), this means:

- **Small companies**: Disclosure requirements unchanged from the Companies Act. Directors' Report renamed to Annual Directors' Statement. Not required to produce a Strategic Report, although we would encourage them to report on environmental and social issues.
- **Medium and large companies**: Some disclosure requirements changed from the Companies Act to simplify and remove duplication. Business review renamed to Strategic Report, other content currently required in the directors report to be included in the Annual Directors' Statement.
- **Quoted companies**: Disclosure requirements changed from the Companies Act. Business Review information (including from the enhanced Business Review) included in the Strategic Report, with detailed supporting disclosure in the Annual Directors' Statement. Significant changes to the Directors' Remuneration Report, which will become part of the Annual Directors' Statement with key information elevated to the Strategic Report.

3.14 As previously noted, we expect that the regulatory burden of the framework proposals for non-quoted companies will be as little as changing two headings in their existing reports. Therefore the new framework will impose a minimal burden on non-quoted companies while providing strong and lasting benefits for larger companies and their investors.

3.15 Some of the content proposals benefit all non-small companies. The disclosure proposals on pay, human rights and women on boards will be mandatory only for

[5] iXBRL is the computer-readable data standard for financial reporting which HMRC and Companies House have adopted for electronic filing of accounts.

quoted companies[6], which is the same scope as the current enhanced Business Review and Directors' Remuneration Report.

**Question 1**

Do you agree in principle with restructuring the current reporting framework into a Strategic Report and an Annual Directors' Statement?

[6] As defined in Companies Act 2006

**Figure 1: The new reporting framework for quoted companies**

**Strategic Report**

**Purpose:** To provide key strategic information about the company including key risks and forward looking analysis.

**Content:** Strategy, business model, performance (including key financial data), risks, social and environmental information (where necessary), key information on corporate governance and remuneration.

**Annual Directors' Statement**

**Purpose:** To provide more detailed disclosures which in part would underpin the Strategic Report. The format of the data more closely prescribed than currently in order to assist comparability and searchability online.

**Content:** Information required by law regardless of materiality. Additional information provided voluntarily by companies (for example on environmental and social issues) within a consistent structure.

Will include Directors' Remuneration Report, Corporate Governance Statement and the Audit Committee Report.

Government would not expect companies to produce glossy copies of the Annual Directors' Statement.

**Financial Statements**

(including audited remuneration information and the Audit Report)

**No changes proposed**

**Audit**

The Strategic Report and Annual Directors' Statement will be reviewed by the company's auditors for consistency with the financial statements as is the case for the current Director's Report. No change to the current audit requirements for the Financial Statements.

| | |
|---|---|
| Key messages from detailed disclosure are elevated to Strategic Report | |
| Integrated reporting is enabled by links to related data | |
| All elements of the reporting framework are subject to a proportionate audit regime | |

## The Strategic Report

3.16 The Strategic Report will provide key information about the company together with the principal risks faced by the business and forward looking analysis. It should be concise, readable and provide meaningful information specific to the company. It will also demonstrate how the board integrates long-term issues and risks - including those relating to relevant environmental, social and human rights issues - into the company's strategy and business model. The report will be required to be fair, balanced and comprehensive, as is currently the case for the existing Business Review.

3.17 The Government expects businesses to act as responsible corporate citizens, and to focus on generating long-term sustainable value for their investors. The Strategic Report will be a key part of how companies communicate this to their investors and wider stakeholders. It will provide an opportunity for companies to show how, at the highest level, these issues are integrated into their strategy and business model. It will also provide a clear line of sight from the company's historic financial performance to its future strategy and business model.

3.18 The Strategic Report should reflect the discussions on these topics that the board have had through the reporting period and be presented in the same way that the board would explain these issues to shareholders. Therefore, the Strategic Report will cover the essential information about the business: its strategy, its business model, performance and key financial data[7], significant changes to governance, and principal risks. These high level disclosures would only be required in the Strategic Report, and will not be required to be repeated in the Annual Directors' Statement. More detail of the proposed content of the Strategic Report can be found at Annex B.

3.19 The Strategic Report would be supplemented by the more detailed information provided in the Annual Directors' Statement. As part of this consultation, the Government is seeking views on the disclosures that should be required of companies in the new reports.

3.20 Companies are currently able to ask shareholders if they would like to receive Summary Financial Statements (SFS) in the place of the annual report. The Companies Act sets out minimum requirements for content of the SFS, with an emphasis on historical financial performance. We propose amending the Companies Act to replace the SFS with the Strategic Report. This would align company law with developing market practice by changing the emphasis of high-level company communication from historical financial performance to strategy and governance. Therefore, the Strategic Report will form part of the package of information known as the "annual report", but will also stand alone as document containing strategic information and key financial information on the company.

3.21 Currently, the directors report must be approved by the board of directors and signed on behalf of the board by a director or, by order of the board, the secretary of the company. In order to ensure that the board of directors takes responsibility for the new Strategic Report, the Government is proposing that the report should be signed by each individual director as well as the company secretary. This should encourage

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7 Similar to that currently provided in the Summary Financial Statements (SFS)

the whole board to take ownership of the report, and will contribute to its status as key company document.

3.22 The Government recognises that issues of liability for statements made in company reports is an important factor in the quality of disclosures made, particularly in the provision of forward-looking information. This is discussed further in Chapter 4 of this document

**Question 2**

Do you agree that the Strategic Report should include information on:

- company performance
- principal risks and uncertainties
- key performance indicators
- key financial information (similar to that currently required for the Summary Financial Statements)

and for quoted companies should include:

- strategy
- business model
- environmental and social information,
- key information on executive remuneration and its link to performance?

**Question 3**

Do you agree that the proposed Strategic Report should replace the Summary Financial Statements?

**Question 4**

Do you agree that the Strategic Report should be signed off by each director individually?

## The Annual Directors' Statement

3.23 The Strategic Report will provide enough information for most users of company reports to make an assessment of the company's historic performance and future prospects. However, a significant number of users will require more detailed specific information on aspects of company performance or governance – for example on specific environmental, social or employee issues that are not material to the company as a whole and that will not therefore be included in the Strategic Report.

3.24 There are issues with how this information is reported under the current framework. Many respondents to the 2010 BIS consultation "The Future of Narrative Reporting" noted that specific information can be difficult to find and, where it is included in current narrative reports, it increases the length of the report to extent that it can obscure the strategic information sought by other users.

3.25 The Government is therefore proposing that this information, including both disclosures that are required regardless of materiality or impact on the business as a whole, and information that is provided by companies voluntarily in response to investor or stakeholder demand, should be located in an Annual Directors' Statement, separate from the Strategic Report.

3.26 The Government believes that in order to facilitate comparability for users, and to reflect the nature of its content, the Annual Directors' Statement should have a prescribed structure with a set layout and standard headings. This will facilitate both ease of access to the information and the comparability of the data, thereby also providing an incentive for companies to bring the standard of their reporting up to that of the best.

3.27 The Government will work with companies, investors, regulators and wider stakeholders over the coming months to develop an appropriate framework and guidance to ensure a robust and future-proof framework is in place before implementation. However, we would also welcome views from respondents to this consultation on the factors that should be considered during this process.

3.28 The structure of the Annual Directors' Statement could therefore accommodate detailed disclosure on, for example, directors' remuneration, greenhouse gas emissions, board diversity and corporate governance, as well as voluntary disclosures, for example highlighting charitable giving by the company or its employees as part of a payroll giving programme or voluntary gender equality reporting[8].

3.29 A summary of the proposed content of the Annual Directors' Statement and how it relates to the Strategic Report is shown in Figure 2. Note that some of the disclosure requirements arising from company law are subject to change, pending the results of this consultation.

3.30 Many of the disclosures currently required in the annual report relate to policies and procedures which would not necessarily change from one annual report to the next. The Government is keen to facilitate a leaner annual report, and believes that it

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8 www.homeoffice.gov.uk/vger

should be possible to include sets of data into the Annual Directors' Statement by a cross reference or link to where the additional data can be accessed.

3.31 In order to ensure that such data is regularly reviewed and, where necessary, updated, the Government believes that that directors should be required to review this information annually. We believe that this is best achieved by requiring directors to confirm in the Annual Directors' Statement that they have reviewed, and where necessary updated, the information included by cross reference and should describe any significant changes.

**Question 5**

Do you agree that the Annual Directors' Statement for quoted companies should include:

- disclosures required, regardless of materiality, by the Companies Act, the Listing Rules etc.
- the Corporate Governance Statement
- the Directors Remuneration Report
- financial information (for example, post-balance sheet events etc)
- information provided voluntarily by companies (for example, additional environmental and social disclosures)?

**Question 6**

Do you agree that companies should be able to include material in the Annual Directors' Report (for example information on policies and procedures) by cross reference to information published elsewhere (for example on the company's website)?

**Question 7**

If companies are able to include material in the Annual Directors' Statement by cross reference (question 6), do you agree that they should make an annual statement confirming it has reviewed that information and noting any significant changes?

**Question 8**

Do you agree that the Annual Directors' Statement should be presented online with a hard copy available to shareholders only on request?

**Figure 2: The Strategic Report and the Annual Directors' Statement**

**Strategic Report**

Will describe the company's strategy, business model, performance (including key financial data and KPIs) and principal risks. Will also include information on social, environmental and human rights matters (where necessary), corporate governance and remuneration.

The focus should be on the material issues for the company and its investors. The content should be linked to detailed disclosures in the Annual Directors' Statement and financial statements to facilitate users' access to detailed information.

**Annual Directors' Statement**

Detailed information and statements of policy, including those currently required by:

- The Small Companies and Groups (Accounts and Directors' Report) Regulations 2008
- The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (including Directors Remuneration Report Regulations)
- The Listing Rules
- Corporate Governance Code
- Other relevant legislation and codes

Information will be grouped under standard headings in a consistent format to aid usability.

Will also provide a framework for companies to include voluntary disclosures (for example CSR and environmental reports) to provide ease of access for investors (and others) to a broad spectrum of company information.

# 4 Simplifying disclosure requirements

4.1 At the same time as changing the framework of narrative reporting, we propose to make a number of changes to the required content of disclosures. The aim of these is to simplify and streamline the requirements by removing duplication and, where necessary, clarifying existing provisions. We also propose revised disclosure requirements for quoted companies on directors' remuneration and new requirements about women on boards (see below). We aim to achieve the right balance between removing superfluous requirements while enhancing the usefulness and relevance of other requirements.

4.2 We also welcome input from businesses and investors on whether there are other disclosures that are no longer of use to users of reports and can be removed. As part of the Government's commitment to cut red tape for all businesses[9], we will be considering all company law regulations over the coming months and will be seeking views from stakeholders as to which should be amended, repealed or simplified.

4.3 A list of the disclosure requirements arising from company law that we propose could be removed can be found in Table 1 below. The Government is committed to simplifying the disclosures required of companies, it is however important to note that the disclosure requirements will not be removed if sufficient evidence is provided of their value to users of company reports.

4.4 The Department for Business will also be working closely with the FSA over the coming months to examine whether the disclosure requirements in company law, International Financial Reporting Standards (IFRS) and the Listing Rules (including the Disclosure and Transparency Rules) are consistent. We would welcome views from preparers and users of reports on areas where there may be benefits, where it is possible, from greater alignment. More detail on some areas that could be considered can be found at Annex C. Any proposed changes to the FSA's rules would be subject to the FSA's own consultation requirements.

4.5 The Government is also committed to working closely with European partners to ensure that the legal framework in this area is as consistent, effective and user-friendly as possible.

**Question 9**

Do you support removal of the disclosure requirements, arising from company law, identified in Table 1? If not, please provide evidence of their relevance to users, including why disclosure in the Annual Directors' Statement is necessary for meeting their needs.

Are there any other disclosure requirements arising from company law that in your view could be simplified or removed?

**Question 10**

Are there areas where the Listing Rules, IFRS, company law and the Corporate Governance Code are inconsistent or require similar disclosures? If so, how could these best be resolved?

| Requirement in current Directors' Report | Recommendation | Reason for recommendation |
|---|---|---|
| Asset values – disclose market value of land if substantially different from that shown in the balance sheet. | Remove Companies Act disclosure requirement for all companies | Replicates IFRS and UK GAAP; some companies currently state only that "we are unable to disclose on grounds that it is impractical" |
| Own shares acquired, disposed or cancelled by the company – disclose number, nominal value, consideration paid, reasons for purchase, charges. | Remove Companies Act disclosure requirement for private companies | To align UK law with the EU 2nd Directive (Article 1.1), which would represent a saving for private companies that acquire their own shares, for example from former directors. |
| Charitable donations – where in aggregate donations exceed £2,000, disclose amount given and the charitable purpose. | Remove Companies Act disclosure requirement for all companies | There is no evidence of continuing conflicts of interest in respect of corporate charitable donations or that this requirement has increased levels of charitable giving from companies. |
| Employee involvement – statement of actions to introduce, maintain or develop arrangements aimed at providing employees with information on matters of concern to them; consulting employees or their representatives on a regular basis; encouraging involvement of employees in company performance. | Remove Companies Act disclosure requirement for all companies | This requirement has been transposed through successive Companies' Acts since its introduction in the Employment Act 1982, which amended the Companies Act 1964.<br>The existing requirement generates disclosures which we believe are of little value to investors, employees or other stakeholders. The rights of employees to information are protected by the Information and Consultation of Employees Regulations 2004 (SI 2004/3426).<br>The requirement also applies only to companies who, in each week of the financial year, had an average of more than 250 employees. |
| Policy and practice on payment of creditors. | Remove Companies Act disclosure requirement for all companies | Information is otherwise apparent from financial statements, and we believe that current disclosure requirement does not provide useful information to either creditors or shareholders. |

**Table 1: Initial proposed simplifications to disclosure requirements in company law**

4.6 As part of updating the disclosure requirements to improve the quality of reporting by companies on social issues, the Government is also seeking views whether disclosure requirements in the areas of human rights and gender diversity in the boardroom could be clarified or improved. These are discussed in more detail below.

## Reporting human rights issues

4.7 Professor John Ruggie, the UN Special Representative on Business and Human Rights, recently published Guiding Principles for the implementation of the "Protect, Respect and Remedy" Framework for business and human rights[10].

4.8 The UK supports a range of international initiatives to help business respect human rights, and has welcomed the publication of the final version of Professor Ruggie's Guiding Principles.

4.9 The Government would welcome views whether UK company law relating to the reporting of material human rights issues could usefully be clarified by making explicit the requirement for quoted companies to include information about human rights issues in the Strategic Report (to the extent necessary for an understanding of the development, performance or position of the company's business). This is the same threshold as currently exists for disclosure of other social and community issues in the Business Review for quoted companies.

**Question 11**

Should quoted companies be explicitly required to include information about human rights (to the extent necessary for an understanding of the development, performance or position of the company's business) in the Strategic Report?

## Reporting gender diversity in the boardroom

4.10 Lord Davies of Abersoch was asked by Business Secretary Vince Cable and Home Secretary Theresa May in August 2010 to carry out a review into the barriers to increasing the number of women on the boards of UK companies.

4.11 His report "Women on Boards" was published on 24 February 2011[11]. As part of the report Lord Davies stated that companies should disclose the number of women sitting on their boards, working in senior executive positions and working in their organisations as a whole, in order to drive up the numbers of women with top jobs in business.

4.12 The Government welcomed Lord Davies' report and agrees that quoted companies should report the proportion of women on their board, and is therefore proposing to require disclosure of this figure each year in the Strategic Report.

[10] http://www.business-humanrights.org/media/documents/ruggie/ruggie-guiding-principles-21-mar-2011.pdf
[11] http://www.bis.gov.uk/assets/biscore/business-law/docs/w/11-745-women-on-boards.pdf

4.13 Lord Davies recommended that businesses in FTSE 350 companies should set their own targets for increasing female representation on their boards by 2015. He suggests that the FTSE100 should challenge themselves to increase the proportion of female directors on their boards to 25% by 2015.

4.14 The Government understands that reporting the proportion of women in senior executive positions might be more difficult, owing to the lack of a legal definition for a "senior executive position", and is open to views on how best this might be defined.

4.15 With regard to the proportion of female employees in the whole organisation, companies (particularly those with overseas operations) may find disclosure difficult or impossible due to a lack of company wide HR systems capable of collecting this data.

4.16 The Government acknowledges this problem but supports Lord Davies' conclusion that disclosure of female employees across the whole organisation is important to help chairmen and CEOs to better understand the composition of their workforces and monitor attrition rates.

4.17 Therefore, the Government proposes to require companies to disclose the proportion of female employees for the parts of the organisation for which gender information is available and an explanation of the approximate proportion of the global workforce that the gender figures relate to. Additionally, the Government proposes to require a brief description of the jurisdictions or regions where gender information is unavailable or onerous to obtain. The Government anticipates that, over time, disclosures in this area will improve as quality and availability of the information continues to develop.

4.18 Looking beyond the boardroom, the Government also encourages companies to adopt the voluntary "Think, Act, Report" approach of gender equality reporting[12].

**Question 12**

Do you support the Government's proposals for company disclosure of the proportion of women on boards and in companies as a whole?

## Liability

4.19 The Government is keen to encourage meaningful disclosures by companies in their narrative reports. Under the current regime, directors are liable for any reckless or fraudulent misstatements made in the Directors Report. The Government believes that the current framework provides protection for users from malpractice, while enabling directors to make statements about the future (for example on risk) which, necessarily, have an element of uncertainty.

4.20 Some companies believe that the current liability regime discourages directors from making meaningful forward looking statements in the narrative report. These

[12] www.homeoffice.gov.uk/vger

concerns appear to be particularly significant for the minority of companies that either have a US listing, or that are contemplating issuing a prospectus. The Government understands that these specific cases, which arise at the interface between different regulatory regimes, may limit what forward looking information companies are willing to disclose in their annual reports.

4.21 However, the Government believes that directors that do not have these specific concerns are also reluctant to make meaningful forward looking statements in their reports. The Government is therefore keen to receive views both on what could be done to encourage fuller and more meaningful disclosures, and on how best to promote understanding of the protection provided by UK's liability regime.

**Question 13**

Do you agree that the current UK liability regime does not discourage companies from making meaningful forward looking statements? If you believe that there are issues with the current regime, do these relate to:

- companies listing in the US as well as in the UK,
- companies contemplating a prospectus,
- common misunderstandings about the UK liability regimes.
- other concerns?

**Question 14**

Would improved understanding and awareness of the UK liability regime help encourage more meaningful, formal looking statements? Are there other activities or changes that the UK Government could make that you believe may be necessary?

# 5 Reporting of remuneration

5.1 Executive pay has been a matter of interest and concern to shareholders, the wider public and governments for more than two decades, as overall levels of remuneration have grown and the complexity of remuneration policies have increased. The way a company rewards its executives can have a major influence on the company's success in meeting its strategic objectives, and can have an impact on the company's reputation and its relationship with its shareholders and other stakeholders.

5.2 It is therefore important for quoted companies to provide clear and accessible information to shareholders about remuneration. Company law already requires all quoted companies to produce a Directors' Remuneration Report, and regulations specify what should be included in the report.[13] The report must then be put to shareholders for an advisory vote.

5.3 The requirement to report has led to improved company transparency on pay; but over time remuneration reports have become increasingly lengthy and complex. This has made it difficult to identify the main facts and figures, which are often buried in a raft of other information. And despite the length of remuneration reports, they are frequently lacking in information which shareholders may find helpful when scrutinising remuneration proposals. For example, clear explanations about the link between pay and performance, and between executive pay and pay across the organisation as a whole.

5.4 The Government believes there is scope for more direct and useful reporting on pay, without increasing the overall reporting burden on companies. Clearer reporting, with key information up-front, will make it easier for shareholders to scrutinise remuneration and empower them to hold companies to account. This chapter puts forward a series of proposals for improving the reporting of remuneration, thereby improving transparency in this area. The proposals – which apply to quoted companies only (i.e. those that are currently required by law to produce a Directors' Remuneration Report) - build on the responses to recent BIS consultations in this area[1,2] and subsequent dialogue with both investors and companies.

5.5 Alongside this consultation the Government has published a discussion paper exploring the broader issues around the link between executive remuneration and performance. This looks at the structure of remuneration and the role of shareholders and remuneration committees in setting remuneration, and invites comment on what more can be done to promote a stronger link between pay and performance.

## Content and structure of disclosure on remuneration

5.6 The Government proposes that companies should report on remuneration as part of the new Strategic Report. This should demonstrate how executive remuneration is linked to the company's strategy, performance indicators, risks and corporate governance arrangements.

[13] The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, http://www.legislation.gov.uk/uksi/2008/410/part/4/made

5.7 The remuneration element of the Strategic Report should include the key pieces of information that shareholders have said they need to understand and assess a company's remuneration policy, including:

- A single figure for the total remuneration of each individual director.
- An explanation of how remuneration in the relevant financial year relates to performance, including graphical representation of company performance.
- Proposed remuneration policy and performance measures for the year ahead, including an illustration of potential remuneration if performance measures are exceeded, met or not met.
- The relationship between executive pay and pay across the organisation, and expenditure on executive pay as a proportion of profit.
- Information on service contracts and shareholdings of all directors.
- A summary of how the remuneration committee came to its decision.

5.8 Detailed information which underpins these calculations, for example tables showing the various components of remuneration for each individual director would be provided in the Annual Director's Statement and cross-referred to where appropriate. This information will therefore still be available to those that need it, and can be audited as necessary, but the top level reporting on remuneration should become more concise.

5.9 Some stakeholders have suggested that a standard format for reporting on remuneration would encourage companies to make disclosures clearer and more concise and make it easier for shareholders to compare across companies. The Government welcomes views on whether a standard format for reporting on remuneration within the Strategic Report would be helpful. As part of slimming down remuneration reporting, we also invite views on which aspects of current disclosure requirements could be moved into the Annual Director's statement, or removed entirely.

5.10 The key areas where the Government believes there is potential to improve the quality of disclosure are explored in more detail below.

**Question 15**

Do you agree that the key information on remuneration should be included in the new Strategic Report? If so, would a standard format for this information be helpful?

**Question 16**

Which elements of the current disclosure requirements could be moved to the Annual Director's Statement, or removed entirely?

## Disclosure of total remuneration for each director in a single figure

5.11 Currently, quoted companies are required to provide detailed information in respect of:

- general emoluments, including salary, fees and annual bonuses;
- share options;
- long term incentive plans (LTIPs);
- pensions.

5.12 However, companies are not currently required to provide an aggregate figure for total remuneration. While there are some examples of best practice reporting there are many cases where the different elements of remuneration are reported in separate tables and spread across a lengthy report. As a result it can be difficult and time-consuming for shareholders to have a clear understanding of the total amounts paid to directors.

5.13 The Government proposes that the Strategic Report include a single table showing the remuneration awarded to each individual director in the relevant financial year, including a cumulative total; as is already a requirement in the United States. More detailed tables showing the breakdown of remuneration should be included in the Annual Directors' Statement and cross-referred to as appropriate.

5.14 Given the complex nature of remuneration packages, the Government invites views on how the single total figure should be calculated and whether this should be on the basis of total realised in the relevant financial year, total awarded or some other basis.

**Question 17**

Do you agree that quoted companies should be required to disclose the total remuneration of each director in a single cumulative figure?

If so, how should be calculated so that it accounts appropriately for the various elements of remuneration packages, including share options, LTIPs and pensions?

## Disclosure of pay for individuals below board level

5.15 In some companies, senior managers who are not on the board may earn as much or even more than the executive directors. They may also hold positions of significant influence and take decisions which have a major impact on the success of the company, so it is important that they are incentivised appropriately. This is most commonly an issue for financial institutions and was recognised in the Walker Review on the stability of banks[14] . Following recommendations by the Financial Stability Board on standards for disclosure, which were implemented by the European Union and taken forward in the UK through the FSA Remuneration Disclosure Rules,

[14] Walker Review of Corporate Governance of UK Banking Industry, 2009, http://webarchive.nationalarchives.gov.uk/+/http://www.hm-treasury.gov.uk/d/walker_review_261109.pdf

transparency of the aggregate remuneration for senior managers and risk takers in these institutions has increased.

5.16 As part of the Merlin agreement, the Government has asked the participating banks to further improve transparency by publishing the remuneration of the five highest earning senior executive officers below board level. The Government has announced it will consult on regulations to extend this disclosure to the eight highest earning senior executive officers and to make it compulsory for all large banks.

5.17 Recognising that there are instances outside of the financial services sector where senior staff below board level command significant influence and financial reward, the Government welcomes views on whether it would be beneficial for corporate governance to extend more widely the requirement to disclose the pay of the highest earners executive officers below board level. Such a requirement could be extended to all, or a subset of quoted companies. It could apply to the eight highest earning individuals below the board, or to those earning more than a specific threshold, perhaps expressed as a proportion of director or CEO pay. The total remuneration of these individuals could be included in the Strategic Report, with further detail included in the Annual Directors' Statement as necessary.

5.18 The Government would also welcome views on whether there are alternative ways of improving shareholder oversight of the performance and pay of influential non-board executive officers.

**Question 18**

Would there be benefits in introducing a requirement to disclose the pay of the highest earning executive officers below board level and, if so, to which companies and individuals should such an obligation be extended?

Are there alternative ways of improving shareholder oversight of the performance and pay of influential non-board executive officers?

## Improved disclosure of the link between pay and performance

5.19 Companies are already required to provide details of how directors' remuneration is linked to performance and, whilst there are some good examples of reports which explain this effectively, in many cases this information is complex, lengthy and difficult to disentangle. The Government believes that companies should provide greater clarity about the link between pay and performance, so that shareholders can be confident that directors are being incentivised appropriately and can challenge where they do not think this is the case. This information should be a feature of the Strategic Report - with clear links to the company's strategic objectives.

5.20 Disclosure on total remuneration for each individual director should be accompanied by a clear and concise commentary on the link between the previously agreed performance measures and the pay awarded in that year. This should include an explanation and justification for any discretion exercised by the remuneration committee to account for exceptional circumstances. The Government recognises that this discretion is sometimes necessary but expects boards to be clear to shareholders where they are being asked to approve something that deviates from the agreed measures and why.

5.21 As part of the current Directors' Remuneration Report, companies are required to publish a performance graph, demonstrating total shareholder return (TSR) over the previous five years in comparison to peer group companies. Shareholders have indicated that an illustration of company performance over the past five years, alongside total remuneration of the CEO over the same period would enable them to assess the relationship between remuneration and performance over time. Many stakeholders have suggested that TSR is not the most appropriate measure to use for this purpose and so the Government invites views on which metrics would provide the most helpful assessment of performance versus pay.

**Question 19**

Do you agree that quoted companies should be required to disclose how remuneration awarded relates to performance in the relevant financial year and to the company's strategic objectives?

**Question 20**

Should quoted companies be required to illustrate performance and the total remuneration of the CEO for the last five financial years, to enable shareholders to assess the relationship between total pay and performance over time?

If so, which performance measure would be the most appropriate?

## Performance criteria for pay in the year ahead

5.22 When describing pay policy for the year ahead, companies are required to explain the performance measures associated with any share options and long term incentive schemes and why they were chosen; and the relative weighting of different elements of remuneration. This gives shareholders the opportunity to scrutinise the structure of remuneration going forward, and any changes from the existing arrangements. However, this element of company reports can lack a clear explanation of what the proposals mean in practice. In particular, the Government believes that shareholders would benefit from a much clearer statement on how future pay policy is linked to performance.

5.23 To address this, the Government proposes that companies should be required to explain how the criteria for all performance related pay including cash bonus, long-term incentive schemes and executive share option schemes relate to the company's strategic objectives, as set out in the Strategic Report. Further detail to underpin this would be included in the Annual Directors' Statement as necessary.

5.24 This should be supplemented by estimates of the future remuneration of executive directors. These estimates should be provided for a range of scenarios such as: objectives exceeded; objectives met; objectives not met. This would improve transparency and make it easier for shareholders to see what directors could be paid in the event of poor, acceptable and exceptional performance. The information would be presented at a high level in the Strategic Report, with any underpinning analysis included in the Annual Directors' Statement.

**Question 21**

Should quoted companies be required to explain how the performance criteria for remuneration policy for the year ahead relates to the company's strategic objectives, as set out in the new Strategic Report?

**Question 22**

Should quoted companies be required to provide estimates of the total future remuneration of executive directors if they exceed, meet or do not meet their performance criteria?

## Disclosure of performance criteria for annual bonuses

5.25 At present the amount of annual bonus awarded to directors must be disclosed but there is no requirement to disclose whether there are associated performance criteria and, if so, what they are. This is because they often involve corporate and personal objectives with commercially sensitive elements. However, between 1998 and 2010 the amount paid to directors specifically in annual bonuses increased by 356%. A number of reasons have been suggested for this increase, including a corresponding decline in the use of share option schemes; but there have also been suggestions that it may be linked to the lack of transparency about such schemes. Whatever the reason for this increase, bonuses now make up a much larger proportion of pay than previously and so there is a strong argument for greater transparency. The Government invites views on whether this should be made mandatory.

**Question 23**

Should quoted companies be required to disclose the performance criteria for annual bonuses?

If so, should companies be permitted to delay the publication of commercially sensitive performance criteria for up to two years?

## Disclosure of ratios and of how pay and conditions of employees have been taken into account

5.26 The current regulations require that the remuneration report includes a statement of how pay and conditions of employees across the group have been taken into account, but feedback suggests that few reports provide meaningful information about this. Some stakeholders have suggested that disclosure in this area should be improved so that there is more transparency about the relationship between senior pay and pay for the majority of employees.

5.27 In his Review of Fair Pay in the Public Sector[15], Will Hutton recommended that public bodies publish the chief executive's (or equivalent) earnings, median earnings of the organisation's workforce, and the ratio between these two figures in their annual remuneration reports. His objective was to ensure that organisations delivering public services are accountable for the relationship between the pay of their executives and the wider workforce. Over time, norms for pay multiples would emerge in different areas of public services, encouraging public scrutiny and challenge of outliers.

5.28 The Review went on to suggest that quoted companies should also be required to publish the ratio between the median pay of their workforce and that of the CEO. Clearly there is considerable diversity of business and pay models in the private sector and some stakeholders have questioned the comparability of such a disclosure and the value of its contribution to shareholder oversight of performance and reward. The review recognised that the nature and structure of different businesses will have an impact on the ratio, as would business decisions taken in-year, but suggested that norms were likely to appear across sectors over time. Some shareholders have suggested that they would find it most helpful to see the trend within an individual company over time, rather than comparing between different companies.

5.29 Reporting of pay ratios is being taken forward in the United States, where the US Securities and Exchange Commission will, as part of the implementation of the Dodd-Frank Act, require US companies to report on the ratio of the median annual pay of all their employees to that of their chief executive.

5.30 The Government recognises that there are divergent views on the value of disclosure of pay ratios, partly reflecting limitations of comparisons between different types of companies, as well as practical challenges with calculating meaningful pay ratios but welcomes views on whether this would provide useful information to shareholders; and if so, how this ratio should be calculated.

**Question 24**

Would disclosure by quoted companies of the ratio between the pay of the company's Chief Executive and the median earnings of the organisation's workforce provide useful information to shareholders?

If so, how should the ratio be calculated?

## Disclosure of total expenditure on directors' remuneration

5.31 Quoted companies are not currently required to disclose total expenditure on directors' remuneration and how this relates to the company's overall performance. In view of the continuing rise in total levels of directors' remuneration, and shareholders' concerns that pay does not always reflect performance, the Government would welcome views on whether such disclosure should be required as part of the Strategic Report. This would provide shareholders and other stakeholders with more information about how much of the company's profits are being invested in

[15] Hutton Review of Fair Pay – Final Report, HMT, March 2011, www.hm-treasury.gov.uk

rewarding directors. To provide context and reduce the risk of undue focus on a single measure, companies may choose to show how directors' pay compares to other uses of resource, for example investment in other areas of the business.

> **Question 25**
>
> Do you agree that quoted companies should be required to disclose the total spend on directors' remuneration as a proportion of profit for the relevant financial year?

## Improved transparency about the process of setting directors' remuneration

5.32 The UK Corporate Governance Code states that:

"*There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration*."

It goes on to recommend best practice on the size, composition and role of remuneration committees. As part of their annual remuneration report, companies are required to disclose membership of the remuneration committee and information about persons who gave advice to the committee - including both directors who are not members of the remuneration committee and remuneration consultants.

5.33 In many cases the remuneration consultants who advise the committee will be part of a business organisation which provides other services to the company; and where this is the case, the Corporate Governance Code requires that this is reported. It has been suggested this disclosure should be strengthened to ensure that any potential conflicts of interest are addressed or exposed. For example, in the same way that fees for the provision of non-audit services by auditors need to be disclosed, there is a good governance argument for shareholders to be made aware of fees paid to remuneration consultants for their services to the remuneration committee and management.

> **Question 26**
>
> Should the amount of fees paid by companies to remuneration consultants be disclosed, and is there any further information which should be disclosed by companies in relation to the procedure for setting directors' remuneration?

## Aligning disclosure requirements

5.34 Quoted companies currently have to comply with three different sets of reporting requirements in respect of disclosure of remuneration in the preceding financial year - IFRS, the Listing Rules and company law. This adds to the complexity and cost of reporting for both companies and shareholders.

5.35 The Government believes that both the company law requirements and the Listing Rules should be reviewed to remove any inconsistencies in the disclosure requirements.

5.36 The Government also wishes to invite views on whether reporting under IFRS would provide an appropriate basis for disclosure of remuneration in the preceding financial year. If this option were adopted, disclosures would be required to be given in aggregate (as required by IFRS) and for each individual director (as is currently the case under the company law and Listing Rule requirements).

**Question 27**

Do you agree that company law and the Listing Rule disclosure requirements on remuneration should be made fully consistent?

**Question 28**

Would reporting under International Financial Reporting Standards provide an appropriate basis for disclosure of remuneration in the preceding financial year if this were required on both an aggregate and individual basis?

# 6 Audit & Assurance

6.1 An effective and proportionate audit and assurance regime is important to ensure that shareholders have confidence in the contents of company narrative reports. Investors, Non Governmental Organisations (NGOs) and other stakeholders would be concerned if directors were allowed to provide narrative information without any form of independent challenge or scrutiny.

6.2 Currently, company law requires the auditor to state in his report on the company's annual accounts whether, in his opinion, the information given in the directors report for the financial year for which the accounts are prepared is consistent with those accounts.

6.3 The Operating and Financial Review, which was introduced in 2005 and replaced by the Business Review in 2006, required an additional statement from the auditor as to:

"*whether any matters have come to their attention, in the performance of their functions as auditors of the company, which in their opinion are inconsistent with the information given in the operating and financial review*."

This requirement was removed when the OFR was replaced by the Business Review. Analysis of the likely impact of reintroducing this requirement into company law indicates that the costs to quoted companies would be approximately £57 million per annum.

6.4 The Government has consulted on whether this audit requirement should be reinstated. The views of respondents to the recent BIS Narrative Reporting consultation varied. Companies viewed that it would impose higher costs on preparers and would limit the scope of company reporting. Investor views were mixed: some saw value in independent assurance of sustainability and carbon reporting, while others cautioned that more thought should be given to what an appropriate framework might be to provide assurance while ensuring a proportionate approach. NGOs and Trade Unions favoured reinstatement in order to provide assurance to stakeholders making use of the information in the report.

6.5 Assurance of non-financial information provided in company narrative reports is of interest to many users of these reports. If investors and others are to make use of such information, then they require confidence that the information is both accurate and complete.

6.6 This is a complex issue: the use of such information by investors is still developing, and the areas of information that are of interest vary significantly depending on the objectives of the investor, the business sector and the specific information being considered.

6.7 Assurance of this information is outside the scope of an audit of the financial statements. Obtaining additional assurance on narrative information also incurs additional costs to companies that provide it, and providing information on the type and level of assurance obtained can add significantly to the length and complexity of the report. It is therefore important to focus additional assurance on areas that generate value for investors and users of company reports.

6.8 Good practice in this area continues to develop, and there is evidence that shareholders are requesting specific levels of assurance from companies on information that is important to them. For example, a number of mining companies chose to publish an independent assurance report on selected sustainability data. Other sectors may choose to use other, more specific, assurance standards where these are more appropriate to the business or the specific information in question.

6.9 The Government favours retention of the current audit requirement as the baseline level of assurance for information contained in the Strategic Report and the Annual Directors Statement. The Government is therefore proposing that company law will require auditors to state whether, in their opinion, the information given in the Strategic Report and the Annual Directors' Statement for the financial year for which the accounts are prepared is consistent with those accounts.

6.10 In order to increase the quality and usefulness of non-financial information, the Government is also seeking views on the best way of encouraging companies and their shareholders to agree on areas of the narrative report that would benefit from a greater level of assurance. Therefore, the Government is seeking ways of improving the dialogue on this issue between companies and their shareholders.

6.11 In taking forward this work, the Government will liaise with the FRC on its proposals in this area following the Effective Company Stewardship consultation.

**Question 29**

Do you agree that the current legislative regime for audit and assurance for narrative reporting is adequate for your needs?

If you support assurance beyond the consistency of the Strategic Report and the Annual Directors' Statement with the accounts, then please explain what you believe assurance should be provided on and the benefits that you believe will ensue.

**Question 30**

Are there any actions that the Government could take to make the process of obtaining additional assurance on specific information in company narrative reports easier or less costly?

## The Audit Committee Report

6.12 In its response[16] to the recent report of the House of Lords Select Committee on Economic Affairs on Auditors[17] the Government stated that it

"*…agrees with the Committee that it would improve the health of the audit market if major company audits were put out to tender more frequently than is typically the case in the UK at present. The risk with mandatory tendering is either that it causes excessive cost if the period of tendering is too frequent, or fails to achieve the objective if the period is too long. The Government believes that the frequency with which company audits are put out to tender should take account of the size and complexity of the company; and that the largest companies should explain each year: the basis for the audit committee's recommendations to the Board and to shareholders as to whom should be appointed auditor; how long the current auditor has been in post; and when a tender was last conducted. The Government also agrees on the importance of a dialogue between the principal shareholders and directors, including the members of the audit committee, but does not believe it would be right to limit this to once every five years.*

*The forthcoming BIS consultation on reform of narrative reporting will set out the Government's proposals for disclosure of information about the principal accounting and audit judgements.*"

6.13 In *Effective Company Stewardship – Next Steps,* the FRC announced its intention to pursue a number of proposals in relation to reports by audit committees and retendering of audit engagements, and the Government will be coordinating with the FRC as it develops its proposals.

6.14 Against the background of those proposals, and for the reasons set out in the Government's response to the House of Lords Select Committee, the Government is requesting views on whether audit committee reports should be required to set out:

- how long the current auditor has been in post; and when a tender was last conducted, and;
- the length of time since the directors, including the members of the audit committee, have held discussions with principal shareholders about the company's relationship with its auditors, including the quality of service provided.

6.15 As part of the new reporting structure, it is intended that the Audit Committee Report should form part of the Annual Directors' Statement.

[16] Government Response to the Second Report of the House of Lords Economic Affairs Select Committee, Session 2010-12, Auditors: Market Concentration and their role. Available at: www.publications.parliament.uk/pa/ld201012/ldselect/ldeconaf/157/15703.htm

[17] House of Lords Select Committee on Economic Affairs, 2nd Report of Session 2010-2011, "Auditors: Market concentration and their role", HL Paper 119-1. Available at: www.parliament.uk/hleconomicaffairs

**Question 31**

Do you agree that the Audit Committee Report should contain, in addition to existing requirements:

- How long the current auditor has been in post; and when a tender was last conducted.
- The length of time since the directors, including members of the audit committee, have held discussions with principal shareholders about the company's relationship with its auditors, including the quality of service provided?

**Question 32**

The Government would also welcome views on the impact of these proposals, both on the cost of preparation of the Audit Committee Report, and of the benefits to investors of having access to this information.

# 7 Guidance for preparers and users

7.1 Effective guidance for preparers is an important tool in driving up the quality of company reporting. Currently, the Accounting Standards Board (ASB) publishes a voluntary reporting statement (RS1). This reporting statement is widely held to be high quality and useful to preparers and users alike. There was broad consultation at the time that the statement was drawn up, with strong stakeholder support for the final product. We understand from our consultations that the statement is often referred to by companies even if they do not state voluntary compliance with the statement.

7.2 However, the proposed changes to the reporting framework will result in a requirement to issue revised supporting guidance. The Government has therefore considered whether the current ASB reporting statement should be replaced either by a revised statement on the current best-practice basis, or by a statutory standard.

7.3 When the Government consulted on this issue last year, the responses varied significantly. The majority of companies considered that a statutory standard would add to the regulatory burden, would lead to more boilerplate reporting and would not achieve any improvements in quality. Investor views were more varied. Some viewed flexibility as necessary and thought that a statutory standard would encourage a “tick box” approach to reporting. Others said that a standard, applied on a comply or explain basis, could expand on issues covered by the regulations and might help to improve quality at the tail end of reports. NGOs and trade unions supported a statutory reporting standard with a focus on strategic factors and how environmental and social factors affect them.

7.4 The Government is not proposing to introduce a statutory standard, as it would impose significant costs on companies and would also lead to more “boiler-plate” disclosures aimed at compliance rather than high quality communication. A statutory standard would also increase costs for quoted companies by an estimated £8 million per annum

7.5 The Government wishes to retain the best elements of the existing voluntary guidance framework, while revising the guidance to reflect the proposed new reporting framework. We therefore propose a review of the current voluntary ASB reporting statement to accommodate the changes to the reporting framework and content. The Government would therefore welcome views on what form the revised guidance should take - for example, whether it should it be based on case studies, best practice, minimum compliance requirements or a combination of these. We would also welcome views on how it should be disseminated and whether it should be high-level and principles-based or more detailed and specific.

7.6 However, the requirements for the structure and format of the Annual Directors’ Statement will be more prescriptive than is currently the case. This will provide many of the benefits of a statutory standard, while retaining the flexibility for companies to tailor their report to the needs of their investors.

7.7 The enhanced ASB reporting statement, including supporting guidance that is specifically tailored to the new framework, will provide companies with the clarity that they need to produce high quality reports. It will preserve the flexibility valued by companies and investors to produce reports that meet their needs.

7.8 The Government has also made a commitment in the recent Natural Environment White Paper[18] to provide business with new guidance that will help them measure and report their corporate environmental impacts.

**Question 33**

What guidance should be provided for preparers of the Strategic Report and the Annual Directors Statement? For example, what form should the guidance take (case studies, best practice, minimum compliance requirements), how should it be disseminated and should it be high-level and principles-based or more detailed and specific?

**Question 34**

Do you agree with the Government's proposal that the reporting statement and supporting guidance should remain voluntary? If you support a mandatory statement, please explain why that is necessary for your requirements.

[18] "The Natural Choice: Securing the value of nature". Available at: www.official-documents.gov.uk/document/cm80/8082/8082.pdf

# 8 The role of enforcement and narrative reporting

8.1 The Financial Reporting Review Panel[19] (FRRP) seeks to ensure that the annual accounts and reports of public companies and large private companies comply with the requirements of the Companies Act 2006 and applicable accounting standards.

8.2 The FRRP carries out its responsibilities on behalf of the Secretary of State in relation to the annual accounts and other documents falling within its remit. The FRRP reviews company accounts and (since 2006) the Directors Report for compliance with the law and applicable accounting standards.

8.3 It is the role of the Panel to enquire into cases where it appears that the rules have not been followed - in the words of the Companies Act "*where it appears to the Panel that there is, or may be, a question whether accounts comply with the requirements of this Act*". Where there may be a case to answer the Chairman of the Panel appoints a group to conduct the enquiry.

8.4 Ultimately, the FRRP is empowered to apply to the court under section 456 of the Companies Act for a declaration or declarator that the annual reports and accounts of a company do not comply with the requirements of that Act and for an order requiring the directors of the company to prepare revised accounts. However, thus far, the FRRP has been able to achieve appropriate action by companies without having to resort to the courts.

8.5 Introduction of a greater statutory enforcement role for the FRRP than is currently the case would introduce significant administrative burdens for both the regulator and companies that are subject to review. The benefits from the current regime with regard to the profile of the FRRP continue to develop and the Government does not see a compelling case for change to the legislative framework in this area. Many respondents to the previous narrative reporting consultation believed that significant changes to the enforcement framework could impair innovative reporting and encourage more bland "boiler plate" narrative statements.

8.6 After consideration of various options for enforcement of the new narrative reporting regime the Government is proposing to enhance the public profile of the FRRP to ensure that stakeholders are clear that their remit extends beyond financial reporting. This is in response to feedback from companies and others, which indicates that they would both welcome and benefit from greater clarity about the current remit and procedures of the FRRP.

8.7 The Government is therefore proposing to take steps to increase the profile and understanding of the role of the FRRP in relation to its oversight of narrative reporting. This will result in greater dialogue between investors and users of reports with the regulator, increasing the understanding of which areas of narrative reporting are of concern to users. This will increase the ability of the FRRP to target its enforcement effectively.

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[19] An operating body of the Financial Reporting Council

8.8 It is also important to note that good practice in company narrative reporting is currently promoted through a number of awards ceremonies and is the topic of a number of market-driven reports and studies. The Government welcomes these initiatives, and will continue to support them in the future where appropriate.

**Question 35**

Do you agree that understanding of the profile and working practices of the FRRP should be enhanced, but that the remit of the FRRP should remain unchanged?

# 9 What happens next?

9.1 Following this consultation, the Government will publish draft regulatory and non-regulatory solutions with a view to the regulatory solutions becoming effective for years beginning 1 October 2012. Early adoption will be facilitated where possible.

9.2 The Government will work with stakeholders over the coming months to ensure that the framework that is put in place is robust and fit for purpose. If you would like to be involved in this process, please contact us at the address given in the front of this document.

# Annex A: Consultation Questions

**Question 1**

Do you agree in principle with restructuring the current reporting framework into a Strategic Report and an Annual Directors' Statement?

**Question 2**

Do you agree that the Strategic Report should include information on:

- company performance
- principal risks and uncertainties
- key performance indicators
- key financial information (similar to that currently required for the Summary Financial Statements)

and for quoted companies should include:

- strategy,
- business model,
- environmental and social information,
- key information on executive remuneration and its link to performance?

**Question 3**

Do you agree that the proposed Strategic Report should replace the Summary Financial Statements?

**Question 4**

Do you agree that the Strategic Report should be signed off by each director individually?

**Question 5**

Do you agree that the Annual Directors' Statement for quoted companies should include:

- disclosures required, regardless of materiality, by the Companies Act, the Listing Rules etc.
- the Corporate Governance Statement
- the Directors Remuneration Report
- financial information (for example, post-balance sheet events etc)
- information provided voluntarily by companies (for example, additional environmental and social disclosures)?

**Question 6**

Do you agree that companies should be able to include material in the Annual Directors' Report (for example information on policies and procedures) by cross reference to information published elsewhere (for example on the company's website)?

**Question 7**

If companies are able to include material in the Annual Directors' Statement by cross reference (question 6), do you agree that they should make an annual statement confirming it has reviewed that information and noting any significant changes?

**Question 8**

Do you agree that the Annual Directors' Statement should be presented online with a hard copy available to shareholders only on request?

**Question 9**

Do you support removal of the disclosure requirements arising from company law identified in Table 1? If not, please provide evidence of their relevance to users, including why disclosure in the Annual Directors' Statement is necessary for meeting their needs.

Are there any other disclosure requirements arising from company law that in your view could be simplified or removed?

**Question 10**

Are there areas where the Listing Rules, IFRS, company law and the Corporate Governance Code are inconsistent or require similar disclosures? If so, how could these best be resolved?

**Question 11**

Should quoted companies be explicitly required to include information about human rights (to the extent necessary for an understanding of the development, performance or position of the company's business) in the Strategic Report?

**Question 12**

Do you support the Government's proposals for company disclosure of the proportion of women on boards and in companies as a whole?

**Question 13**

Do you agree that the current UK liability regime does not discourage companies from making meaningful forward looking statements? If you believe that there are issues with the current regime, do these relate to:

- companies listing in the US as well as in the UK,
- companies contemplating a prospectus,
- common misunderstandings about the UK liability regimes
- other concerns?

**Question 14**

Would improved understanding and awareness of the UK liability regime help encourage more meaningful, formal looking statements? Are there other activities or changes that the UK Government could make that you believe may be necessary?

**Question 15**

Do you agree that the key information on remuneration should be included in the new Strategic Report? If so, would a standard format for this information be helpful?

**Question 16**

Which elements of the current disclosure requirements could be moved to the Annual Director's Statement, or removed entirely?

**Question 17**

Do you agree that quoted companies should be required to disclose the total remuneration of each director in a single cumulative figure?

If so, how should be calculated so that it accounts appropriately for the various elements of remuneration packages, including share options, LTIPs and pensions?

**Question 18**

Would there be benefits in introducing a requirement to disclose the pay of the highest earning executive officers below board level and, if so, to which companies and individuals should such an obligation be extended?

Are there alternative ways of improving shareholder oversight of the performance and pay of influential non-board executive officers?

**Question 19**

Do you agree that quoted companies should be required to disclose how remuneration awarded relates to performance in the relevant financial year and to the company's strategic objectives?

**Question 20**

Should quoted companies be required to illustrate performance and the total remuneration of the CEO for the last five financial years, to enable shareholders to assess the relationship between total pay and performance over time?

If so, which performance measure would be the most appropriate?

**Question 21**

Should quoted companies be required to explain how the performance criteria for remuneration policy for the year ahead relates to the company's strategic objectives, as set out in the new Strategic Report?

**Question 22**

Should quoted companies be required to provide estimates of the total future remuneration of executive directors if they exceed, meet or do not meet their performance criteria?

**Question 23**

Should quoted companies be required to disclose the performance criteria for annual bonuses?

If so, should companies be permitted to delay the publication of commercially sensitive performance criteria for up to two years?

**Question 24**

Would disclosure by quoted companies of the ratio between the pay of the company's Chief Executive and the median earnings of the organisation's workforce provide useful information to shareholders?

If so, how should the ratio be calculated?

**Question 25**

Do you agree that quoted companies should be required to disclose the total spend on directors' remuneration as a proportion of profit for the relevant financial year?

**Question 26**

Should the amount of fees paid by companies to remuneration consultants be disclosed, and is there any further information which should be disclosed by companies in relation to the procedure for setting directors' remuneration?

**Question 27**

Do you agree that company law and the Listing Rule disclosure requirements on remuneration should be made fully consistent?

**Question 28**

Would reporting under International Financial Reporting Standards provide an appropriate basis for disclosure of remuneration in the preceding financial year if this were required on both an aggregate and individual basis?

**Question 29**

Do you agree that the current legislative regime for audit and assurance for narrative reporting is adequate for your needs?

If you support assurance beyond the consistency of the Strategic Report and the Annual Directors' Statement with the accounts, then please explain what you believe assurance should be provided on and the benefits that you believe will ensue.

**Question 30**

Are there any actions that the Government could take to make the process of obtaining additional assurance on specific information in company narrative reports easier or less costly?

**Question 31**

Do you agree that the Audit Committee Report should contain, in addition to existing requirements:

- How long the current auditor has been in post; and when a tender was last conducted.
- The length of time since the directors, including members of the audit committee, have held discussions with principal shareholders about the company's relationship with its auditors, including the quality of service provided?

**Question 32**

The Government would also welcome views on the impact of these proposals, both on the cost of preparation of the Audit Committee Report, and of the benefits to investors of having access to this information.

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What guidance should be provided for preparers of the Strategic Report and the Annual Directors Statement? For example, what form should the guidance take (case studies, best practice, minimum compliance requirements), how should it be disseminated and should it be high-level and principles-based or more detailed and specific?

**Question 34**

Do you agree with the Government's proposal that the reporting statement and supporting guidance should remain voluntary? If you support a mandatory statement, please explain why that is necessary for your requirements.

**Question 35**

Do you agree that understanding of the profile and working practices of the FRRP should be enhanced, but that the remit of the FRRP should remain unchanged?

# Annex B: Summary of the proposed content of the Strategic Report

The Strategic Report should provide the shareholders with key strategic data about the company including key risks and forward looking analysis. The Strategic Report should enable the user to find supporting detail if they wish to.

The key strategic data should be supported by (and should either be linked electronically or refer to) the more detailed sets of data provided by the company - for example the financial statements and the Annual Directors' Report.

In preparing the Strategic Report and the Annual Directors' Statement, the directors' duty of care will be to the shareholders as a group, to a standard of care which is identical to the current standard for the Directors' Report.

Where the Strategic Report is sent to shareholders in place of the full annual report, as with the current Summary Financial Statements, then the auditors must give a consistency opinion identical to that currently required for Summary Financial Statements.

Where the Strategic Report is published as part of the annual report then the auditors must give a s496 equivalent opinion whether the Strategic Report and the Annual Directors' Statement are consistent with the financial statements, as is currently the case for the Directors' Report.

**For all companies (other than those subject to the small companies' regime), the *Strategic Report* must contain:**

- A fair, balanced and comprehensive review of the business to enable users to assess how directors have performed their duties under section 172 of the Companies Act 2006 (duty to promote the success of the company)
- A description of the principal risks and uncertainties facing the company,
- A comprehensive analysis of the development and performance of the business during the financial year
- A comprehensive analysis of the financial position of the business at the end of the year

**For quoted companies, the Strategic Report must, to the extent necessary for an understanding of the development, performance or position of the company's business, include:**

- A description of the company's strategy
- A description of the company's business model
- An analysis of the main trends and factors likely to affect the future development, performance and position of the business
- A description of critical changes to the company's governance

- Information regarding environmental matters and the impact of the business on the environment including any related policies and the effectiveness of those policies
- Information regarding employees and social and community issues including any related policies and the effectiveness of those policies
- Information about persons with whom the company has contractual or other arrangements which are essential to the business of the company
- Information regarding human rights matters

**For quoted companies, the Strategic Report must also include:**

- Key information on executive remuneration, as outlined in Chapter 5
- Description of critical changes in governance (with a link to the more detailed corporate governance statement Annual Directors' Statement)
- Disclosure on women on boards

**For all companies (other than those subject to the small companies' regime), the Strategic Report must to the extent necessary for an understanding of the development, performance or position of the company's business, include:**

- Analysis using financial Key Performance Indicators (KPIs) in line with current business review requirements.

The report must, where appropriate, include references to, and additional explanations of, amounts included in the company's annual accounts

**For all companies (other than those subject to the small or medium companies' regime), the Strategic Report must to the extent necessary for an understanding of the development, performance or position of the company's business, include:**

- Where appropriate, analysis using other KPIs, including information relating to environmental matters and employee matters.
- KPIs should be comparable over time; where available the corresponding amount for the financial year immediately preceding the current year should be disclosed.

# Annex C: Directors' Report and Listing Rule Requirements

| Requirement in current Directors' Report | Scope for alignment? |
|---|---|
| Disclosure of material related party transactions | Listing Rules (LR) requires disclosure where one of the following *percentage ratios* exceeds 0.25%: gross assets, profits, consideration (based on market cap), or gross capital.<br><br>IFRS requires disclosure where the transaction is material, in isolation or in aggregate, to the company or the individual and so disclosure is necessary for a users understanding; IAS 24 may be a broader scope as it may include senior executives who are not directors. |
| Long term incentive schemes | LR - issuers are required to provide information about arrangements where director is only participant and is specifically designed for recruitment/retention of that director. The information is only required in the first annual report published after they become eligible. Also details of any Long-Term Incentive schemes under which directors receive entitlements including: monetary value, number of shares, interests at end of period, etc. LR 9.8.8(3) to (6).<br><br>IFRS Schedule 8, Part 11 & 12 Long Term incentive schemes including: details of scheme interest at beginning, end and during the year; plus number of shares and market price of awards.<br><br>CA - Sch 7A requires details of payments made under LTIP's |
| Contracts of significance – where director or controlling shareholder have an interest in a contract which has value more than 1% of balance sheet total or P&L heading as applicable | LR – no objective size required but information relating to any contracts to which the issuer or subsidiary is a party and a director is materially interested; or between the issuer, or a subsidiary, and a controlling shareholder.<br><br>CA 2006 s992 – significant agreements that take effect, alter or terminate on a change of control. |
| Information disclosed to the company by major shareholders | LR – require a statement of the positions of major shareholders, as stated to the company during the year, as at the end of the financial period. Gives a 'snapshot' at the end of the year in question.<br><br>DTRs – require information regarding adjustments in holdings to be notified to the issuer, and then the market, by investors.<br><br>CA 2006 s992 (2)(c ) & (d) – details of significant holdings in company: identity, size and nature. |
| Corporate governance disclosures | We would welcome views on whether there are specific overlaps or duplication of corporate governance disclosures required by company law, the listing rules and the corporate governance code. |

# Annex D: The Consultation Code of Practice Criteria

Formal consultation should take place at a stage when there is scope to influence policy outcome.

Consultation should normally last for at least 12 weeks with consideration given to longer timescales where feasible and sensible.

Consultation documents should be clear about the consultation process, what is being proposed, the scope to influence and the expected costs and benefits of the proposals. Consultation exercise should be designed to be accessible to, and clearly targeted at, those people the exercise is intended to reach.

Keeping the burden of consultation to a minimum is essential if consultations are to be effective and if consultees' buy-in to the process is to be obtained.

Consultation responses should be analysed carefully and clear feedback should be provided to participants following the consultation.

Officials running consultations should seek guidance in how to run an effective consultation exercise and share what they have learned from the experience.

## Comments or complaints

If you wish to comment on the conduct of this consultation or make a complaint about the way this consultation has been conducted, please write to:

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